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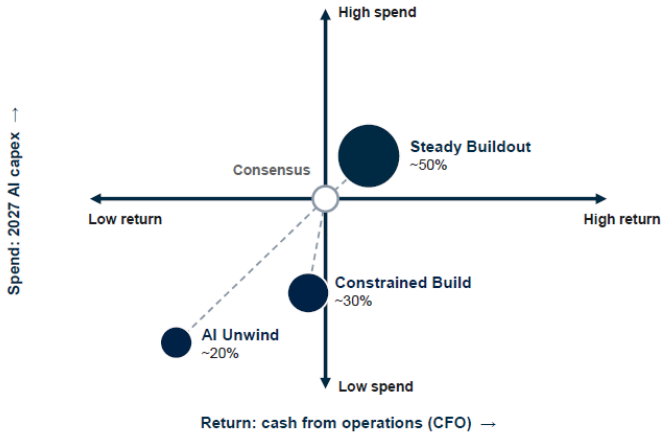
AI-Buildout Scenarios as Exposure Expands

WEEKLY VIEW FROM THE DESK | November 2, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

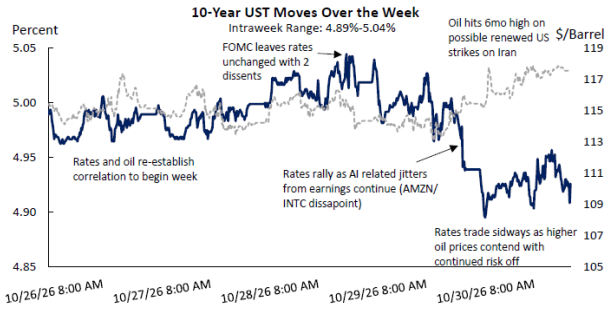
- As the global AI-financing wave extends across the debt and equity capital markets, participants are likely attempting to determine their aggregate AI-related exposure while assessing where the buildout process heads from here. Given the buildout's effect on macro and market conditions, we've developed 12-month scenarios based on capex spend and return as well as their contributing inputs, such as power, permitting, input costs, financing, and end-user demand.
- As observed in the accompanying chart, our base case scenario is for a **Steady Buildout** (50% probability) where hyperscalers deliver roughly $1.3T of 2027 capex, and cloud revenue keeps accelerating. Power and permitting delays slow individual projects, but push the spend into later quarters, while political backlash becomes a local story after the midterms. AI investment adds as much as 1 percentage point to GDP, so growth runs above trend, inflation remains sticky, and the buildout is one reason the Fed maintains a tightening bias. Hyperscalers fund the free cashflow gap in the bond market, and their spreads consequently underperform even as fundamentals hold; chips and power are the clearest winners.



- Our **Constrained Build** scenario (30%) is one where AI demand remains strong, but the build hits a wall of politics and physics. Data centers become a key issue in the 2028 election, state moratoria (such as the one in Texas) prove hard to reverse, while power, interconnection, and permitting bottlenecks push new projects even further out. Next year's capex falls toward $1.0T. Slower AI investment takes some heat out of GDP growth and gives the Fed room to pause. Hyperscaler issuance levels off well below the expected path and scarce capacity supports compute pricing, so hyperscaler bonds and operating data centers outperform, while chips, pipeline projects and developers underperform.
- The **AI Unwind** scenario (20%) consists of security concerns and much weaker AI demand that undercuts monetization. Compute contracts concentrated in major players fail to convert amid struggles to fund commitments. Cheaper models make planned capacity look excessive and compute prices fall. Hyperscalers cut discretionary and 2028 spending, though signed leases limit how fast 2027 capex can drop. AI market segments hit headwinds: equities fall, wealth effects reverse, and the unwind becomes the main reason the Fed eases aggressively. Duration rallies strongly while spreads widen broadly; model providers, neoclouds, GPU SPVs, and data center developers are hardest hit.

DEVELOPED MARKET RATES

- The recent consolidation in Treasuries has accompanied a market repricing that has removed about 50 bps in expected Fed hikes over the past month with the expected peak Fed funds rate falling from about 4.90% to about 4.40%. Similar to last week when we observed a directional break between oil prices and DM yields, the accompanying chart shows when Treasuries caught a significant bid on Thursday as equities sold off.
- The Treasury's refunding approach also warrants monitoring as issuance is likely to migrate toward the 2- to 10-year segment of the curve, with heavier reliance on bills that reduces the weighted-average maturity. We view a bill share around 25% as manageable, but an increase toward 30%–35% would become more concerning amid the rollover risk.



Source for charts: PGIM

- The MBS sector is experiencing tailwinds as lower rates, the end of convexity-driven selling, very light supply, and minimal refinancing activity support spreads.
  Yet, rates have not fallen far enough to create a meaningful new supply or a prepayment threat.

IG CORPORATES

- New issuance hit $55B for the week. This exceeded the $30B that dealers had anticipated. Deals were 3.5x oversubscribed and came with a 10 bps concession. There has been more volatility than indexes would otherwise suggest. Earnings growth remains strong but not surprising, given the market's high expectations going into the quarter. Actual results for Q3 have topped estimates by a smaller margin than in Q1 and Q2. Thus, market participants might be expressing "what have you done for me lately" sentiment. The outlook for hyperscaler capex spending has remained fairly stable this earnings season, and consensus estimates indicate that earnings growth in the AI infrastructure universe will slow in the coming quarters.
- In Europe, after the selloff at the end of the previous week, there was an element of spreads bouncing back from their wides. There was little movement off the back of the Fed and ECB rate decisions. Gilts marginally outperformed continental rates after the U.K. government

presented its October budget. Despite a shortened supply window, EU primary markets saw just under €14B of supply. Large multi-tranche deals from both Schneider Electric and Procter & Gamble made up €8.5B of the supply. Despite continued difficult secondary conditions, both deals gained interest of 2.5-3x across tranches. Schneider's deal significantly outperformed the market, tightening by up to 14 bps.

- November is expected to see a considerable uptick in issuance, with some syndicates calling for up to €75B of corporate issuance alongside €15-25B of financials issuance. These predictions sit much higher than historical averages, including last year's record €65B.

LEVERAGED FINANCE

- The U.S. high-yield market posted a positive but choppy week as the market navigated a sharp intraweek reversal. Buyers stepped in on weakness during a mid-week dip, though conviction faded into the Friday close as the tech selloff broadened. Total returns were mixed across high-yield sectors, with the best performers being telecom, cable, and air transportation. The three worst-performing sectors were paper, consumer products, and technology. Flows were positive for the week, totaling +$1.3B. This was the largest weekly inflow in 12 weeks. The primary market priced approximately $4.4B across five deals, compared to $3.4B during the prior week. Notable transactions included Bending Spoons, Recordati, and ZF North America Capital.
- U.S. bank loan spreads were 8 bps tighter, with tech and software lower amid broader AI concerns in the market. There were only five deals last week, and this week, there are just four deals on the calendar.
- European high-yield spreads tightened by 7 bps. Single-Bs outperformed BBs and CCCs, driven by distressed names. Bank loan spreads widened slightly. The CLO market remained busy, as six deals priced last week. Overall, France and the AI trade remain in focus.

EMERGING MARKETS

- EM hard currency sovereign spreads were marginally wider, with mixed performance and a "rebound" of sorts with single-Bs in SSA outperforming. Latin American issuers underperformed, with some exceptions. While the broader markets were focused on AI volatility, escalation/mediation in geopolitics and energy price pressures, EM relative performance between credit categories is a function of positioning (and recent performance), funding needs, and country-specific factors.
- The big news on the country level last week was the surprising outcome of the Brazil elections. Brazil assets underperformed, particularly in local rates and FX, and spreads were just under +30 bps wider. Markets did improve from the wides. Argentina suffered the most collateral damage, down about 2 points, amid concerns on spillover from potential Brazil economic weakness, plus their own election outlook for next year. Elsewhere, Colombia successfully issued $5.2B of 5/10/30-year with +15 bps of concession. The deal was 3x oversubscribed.
- EM corporate spreads were wider last week amid continuing decompression driven by broader market concerns on tech and oil. Turkish utilities' bonds bounced back from lows, while Brazil corporates were 15-20 bps wider post-elections.
- In local rates, the index yield was up 9 bps last week despite a drop in the 10-year Treasury yield. This was primarily driven by an outsized 250 bps selloff in Brazilian yields following Lula's surprise election victory. Elsewhere, yields generally declined despite higher energy prices. Korean swaps rallied amid a selloff in semiconductor stocks and the associated decline in rate hike expectations. By contrast, Indian swaps and bonds remained under pressure amid elevated energy prices. The BCB meeting will be the most significant central bank event this week.
- The EMFX index fell last week, with Latam underperforming mainly due to reactions to Brazil's election. The selloff in technology stocks resulted in UST rates moving lower and bull steepening. That brought mixed USD performance in the back half of the week.
- Barring a resolution to the Middle East conflict, we think USD will be biased upward and financial conditions will be biased to tighten. Under such a backdrop, we think oil importers will continue to underperform, and the environment for carry will be more challenging. We have reduced risk to higher-carry currencies, and we have inched up our long USD exposure recently. While portfolio risk has been reduced, we still retain high carry versus low carry relative value, alongside a small long USD bias.

SECURITIZED PRODUCTS

- Securitized markets stabilized recently as investor demand improves, but heavy issuance and very flat credit curves remain constraints. CLOs are holding up particularly well, while RMBS is attracting renewed demand despite continued supply pressure.
- Senior spreads were essentially unchanged and mezzanine spreads only marginally softer. CLOs continue to outperform other securitized-product sectors, with strong demand across tranches balancing elevated issuance.
- The team remains cautious in mezzanine tranches because curves have not steepened enough to make the incremental spread particularly attractive, although opportunities exist in selected pockets globally.

MUNICIPALS

- Munis continued to rally last week, as a flight to quality in the Treasury market ensued. Relative value continues to weaken in parts of the curve, as munis outperformed Treasury rates for a third week.
- The primary market reflected the strength of the rates market, with over $2B being accelerated into the week. The primary market should continue to do well as this week's $6.7B is a relatively depressed number as voters go to the polls. November reinvestment should further bolster demand for the tax-exempt market. However, the trend of money moving from open end to ETFs continued.
- It's also worth noting that the muni curve continues to steepen, even as the Treasury curve remains relatively flat. We are primarily watching the midterms for regulation around AI, bond referendums, potential tax policy (CO, FL, CA), and candidates looking to grow spending. As we wind down the year, we see munis on relatively strong footing, despite tight valuations. Higher reinvestment, solid fund flows, and an elevated rate environment should keep demand solid.

THE RETURNS TABLE AS OF OCTOBER 30, 2026

				Yield / OAS change (bps)					Total return (%)				
	Duration	YTM	OAS	WTD	MTD	QTD	YTD	Prior year	WTD	MTD	QTD	YTD	Prior year
Sovereign rates													
U.S. 2-Year	1.88	4.59	---	-9	-30	-30	112	98	0.28	0.93	0.93	1.19	2.00
U.S. 5-Year	4.40	4.72	---	-9	-37	-37	100	100	0.56	1.99	1.99	-0.93	-0.38
U.S. 10-Year	7.69	4.93	---	-7	-36	-36	76	83	0.79	3.28	3.28	-2.03	-1.99
U.S. 10-Year Breakeven	--	2.34	---	-1	-3	-3	10	4	---	---	---	---	---
U.S. 10-Year TIPS	4.26	2.59	---	-6	-33	-33	69	79	0.79	3.46	3.46	-0.62	-0.53
U.S. 20-Year	12.10	5.34	---	-3	-34	-34	54	70	0.82	4.75	4.75	-2.52	-4.00
U.S. 30-Year	14.84	5.31	---	-1	-32	-32	46	65	0.61	5.46	5.46	-2.73	-5.27
U.S. SOFR	---	---	---	3	5	5	8	-9	0.08	0.32	0.32	3.14	3.83
UK 10-Year	7.55	5.28	---	-7	-14	-14	81	86	0.55	1.17	1.17	-0.90	-0.61
Germany 10-Year	8.25	3.32	---	-2	-26	-26	47	68	0.26	2.06	2.06	-0.77	-2.00
Switzerland 10-Year	8.38	0.45	---	-3	-11	-11	17	33	0.22	0.79	0.79	-1.08	-2.26
Japan 10-Year	7.73	2.77	---	-2	-28	-28	71	113	0.11	1.95	1.95	-2.66	-5.34
Australia 10-Year	7.93	5.12	---	-5	-23	-23	38	81	0.36	1.69	1.69	1.54	-1.04
Canada 10-Year	8.01	3.80	---	-4	-19	-19	37	67	0.40	1.65	1.65	0.41	-1.01
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.18	4.25	36	-1	4	4	9	8	0.30	1.41	1.41	-1.30	-0.89
Global Aggregate Hedged	6.18	4.25	36	-1	4	4	9	8	0.41	1.73	1.73	0.28	0.25
U.S. Aggregate	5.87	5.24	32	0	1	1	5	5	0.56	2.44	2.44	-0.54	-0.15
Euro-Aggregate (Unhedged)	6.15	3.88	70	-3	13	13	28	24	0.37	0.96	0.96	-1.58	-2.15
Japanese Aggregate	7.84	2.59	1	0	0	0	0	1	0.10	1.78	1.78	-2.92	-5.31
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.68	5.52	34	-2	-9	-9	12	6	0.75	3.07	3.07	-0.34	0.45
Global IG Corporate Bonds	5.77	5.34	96	0	11	11	16	18	0.35	1.29	1.29	-1.95	-1.33
U.S. IG Corporate Bonds	6.62	5.79	90	2	10	10	13	14	0.48	2.16	2.16	-1.02	-0.80
European IG Corporate	4.51	4.18	105	-4	14	14	26	28	0.38	0.76	0.76	-0.45	-0.84
U.S. High Yield Bonds	3.45	8.31	340	3	29	29	74	62	0.50	0.30	0.30	0.40	1.49
European High Yield Bonds	3.31	7.23	385	-11	64	64	104	96	0.69	-1.05	-1.05	-0.74	-0.15
U.S. Leveraged Loans	0.3	9.94	510	-8	28	28	55	56	0.36	-0.25	-0.25	3.16	4.09
European Leveraged Loans	0.3	8.94	524	-6	52	52	50	37	0.27	-1.03	-1.03	1.77	2.71
EM Hard Currency Sovereigns	6.08	7.09	206	4	15	15	7	21	0.39	1.35	1.35	0.75	1.93
EM Corporates	3.99	6.91	204	1	2	2	4	7	0.13	0.52	0.52	0.86	1.61
EM Currencies	---	6.06	---	0	0	0	0	0	-0.46	-0.57	-0.57	2.68	4.51
EM Local Rates	5.22	6.56	7	0	0	0	1	1	-0.38	0.31	0.31	1.26	2.39
CMBS	3.59	5.45	75	3	8	8	0	-2	0.39	1.49	1.49	0.41	1.34
ABS	2.91	5.16	51	2	11	11	-1	-3	0.30	1.12	1.12	1.39	2.27
CLOs	3.94	5.65	126	-1	-1	-1	-5	-7	0.10	0.40	0.40	4.01	4.92
Municipal Bonds	6.85	4.21	---	-10	-57	-57	62	64	0.66	3.85	3.85	-0.48	-0.17

		Total return (%)						Change (%)					
	Level	WTD	MTD	QTD	YTD	Prior year		Spot	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices							**FX / commodities**						
S&P 500 Index	7,580	-0.6	-0.9	-0.9	11.8	12.4	EUR / USD	1.1	-0.4	-1.5	-1.5	-5.0	-3.5
DAX	25,818	2.5	2.5	2.5	5.4	7.0	USD / JPY	157.6	0.4	0.1	0.1	0.5	2.2
Stoxx 600	647	1.8	2.0	2.0	12.4	16.1	GBP / USD	1.3	0.1	0.9	0.9	-0.6	1.8
Nikkei 225	63,290	1.0	-5.2	-5.2	27.7	25.4	EUR / CHF	0.9	-0.4	-2.8	-2.8	-1.1	-0.8
Shanghai Composite	3,599	-2.4	-6.1	-6.1	-7.4	-7.5	USD / CHF	0.8	0.0	-1.3	-1.3	4.1	2.9
MSCI ACWI Index	1,116	-0.3	-1.6	-1.6	11.6	12.9	USD (DXY)	101.9	0.1	0.4	0.4	3.6	2.4
FTSE 100	10,730	0.4	1.3	1.3	10.9	13.4	Oil	104.1	-3.9	15.2	15.2	81.3	71.9
MOVE Index	100	-3.0	-9.3	-9.3	56.7	49.8	Gold	3874.6	-3.0	-6.8	-6.8	-10.3	-3.7
VIX Index	19	-0.2	18.8	18.8	29.9	14.8							

Past performance is not a guarantee or a reliable indicator of future results. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofAML), Bank Loans (S&P), and CLOs (Palmer Square). European returns are unhedged in euros unless otherwise indicated. An investment cannot be made directly in an index.

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Source(s) of data (unless otherwise noted): PGIM as of November 2, 2026.

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